

US Markets June: Stocks bounce as trade hopes build once again

Q2 portfolio NAV rises 4.5% after broad-based equities gains

We're now at the mid-point of 2019, with stocks recording their best first half since 1997. The most recent quarter wasn't all one-way sailing, with volatility returning during May, however the market rebounded strongly in June.

Heading into the second half of the year we're well positioned to see markets cement new all-time highs, especially with a backdrop of potential interest rate cuts, modest economic growth and easing trade anxieties.

<i>Index</i>	<i>June Performance</i>	<i>Q2 Performance</i>
<i>Dow Jones</i>	7.2%	2.6%
<i>NASDAQ</i>	7.4%	3.6%
<i>S&P 500</i>	6.9%	3.8%

One of the early catalysts for the second quarter's performance was an impressive showing out of China in terms of manufacturing data. Concerns to date have centred on the impact of the trade war on the two leading economies, so this was a reassuring sign that things are ticking along well. We're confident the Chinese government will also support its economy via stimulatory measures if required.

As for those trade negotiations, things continue to prove dynamic, albeit without a resolution. At one stage during May it looked like the tit-for-tat that rounded out late last year would resurface following the introduction of billions in new tariffs. Cooler heads appear to have prevailed at the G20 summit – even if temporarily – with both parties agreeing to a truce to avoid further tariffs. The longer both sides placate investors' nerves, the more likely we'll see consolidation at these record levels. At least one headache was averted as the US and Mexico found common ground to avoid tariffs.

The Federal Reserve's interest rate trajectory has shifted to a dovish if not easing bias, which is underpinning strength in equities. While we forecast last month's rate decision, inflation remains subdued and could do with a helping hand. We foresee that will come at the end of the month, especially as an inverted treasury yield curve typically restricts credit access. In any case, the broader economy and jobs growth is no cause for concern, the USD has stabilised, and energy prices rebounded amidst tension with Iran.

Earnings Season Closes on a High

Although there were just a small portion of high profile companies to report during June, strong market momentum came as a perfect time to deliver results.

Salesforce (CRM) started June with an earnings beat, delivering EPS results over 50% higher than analysts expected. A move away from software towards other services and support for customers is paying dividends. That said, competition remains a headwind.

Its peer, **Oracle** (ORCL), which is moving to a cloud model, rose 12.6% after topping earnings projections.

Another software favourite, **Adobe** (ADBE) surpassed revenue expectations by reporting US\$2.74bn, a 25% increase from a year prior. Earnings were slightly ahead of forecast, which outshone a soft outlook guidance.

While revenue growth in the digital media segment has slowed, price increases will support profit growth. The stock was up 8.8% over the month.

Nike (NKE) and **Walgreens** (WBA) were two other stocks to enjoy a stellar month on the back of quarterly results, up 8.8% and 10.8% respectively. Even though Nike missed its earnings target - margins declined on the back of direct sales to customers - we were thoroughly pleased with sales growth given intense competition. In particular, China sales surged 22% to US\$1.7bn. The company's strategy to build more personal relations with customers is value-adding.

June Quarter

Two of the leading stocks during the second quarter were **Disney** (DIS) and **Microsoft** (MSFT), which leapt 25.8% and 13.6% higher respectively. We think the investment case for both remains compelling even after their strong performances.

Disney's tearaway performance has come as the company announced details of its new streaming services that are set to take on **Netflix** (NFLX), the strength of its high profile box office releases, as well as the opening of new Star Wars theme parks.

Meanwhile, Microsoft has smashed earnings results and is seeing significant revenue growth come from its cloud services. It's proving that a changing business model doesn't need to spell disaster, nor cause for concern.

Other key movers included **Zillow Group** (Z) up 33.8% during the June quarter, **CME Group** (CME) up 17.9%, and **Tesla** (TSLA) stock down 20.2%. All arose from momentum gathered during the release of each company's respective quarterly earnings.

Portfolio Performance

During June portfolio **Net Asset Value** (NAV) increased by 2.5%. While this lagged the broader market, we had sought hedging protection following the sell-off in May, so our strong gains from equities were offset by this.

In terms of underlying performance of the portfolio **equities**, gains totalled 6.5%. There was a significant spread of contributions towards this result, led by **Apple** (APPL) and **Alibaba** (BABA). Both stocks were received favourably by investors who see the likelihood of a trade deal between US and China increasing. As long as things don't deteriorate on this front, we're comfortable with the risk-return for both on account of their strong growth prospects.

Although our hedge against the S&P 500 delivered returns during May, June's stock market rebound worked against the **futures** contract with a return of -2.6% of the portfolio's starting NAV. This also impacted **realised income**, which was -2%.

No equities positions were closed out during the month, albeit we did add to our tech and industrial holdings. **Unrealised income** stands at 7.3% of NAV from the start of June.

As the AUD/USD **forex** rate moved from 0.694 to 0.702, the portfolio was hit by a 1.2% reduction because all assets are USD denominated. At June 30 the **cash** balance accounted for 4.5% of all assets.

June Quarter

Across the quarter, portfolio **NAV** rose 4.5%, inclusive of profits derived from new cash contributions, and after accounting for all brokerage and advisory fees during this period. This was a strong result, with stock selection and forex hedging proving invaluable to protect assets during May's sell-off.

Focusing on the performance of **equities** alone, a return of 8.9% on the quarter's opening NAV indicates significant outperformance of the indices. CME Group, Zillow and McDonald's led the contributions thanks to their impressive quarterly reports.

This quarter our activity in **equity and index options** was pared back, returns totalling -0.2%. Our **futures** contract saw the portfolio NAV from April contract by 3%, but this position has since been closed.

As we did not take profits from our equity holdings **realised income** was -3.1%. However, this does mean **unrealised income** remains particularly strong, accounting for 11.4% of NAV at the start of April.

Forex movements over the quarter provided a small gain of 1.3%, while **cash** declined significantly as capital was deployed into new and existing equity opportunities.

Top 10 Holdings

<i>Company</i>	<i>Code</i>	<i>Weight (%)</i>
<i>Apple</i>	AAPL	7.38
<i>McDonalds</i>	MCD	6.79
<i>CME Group</i>	CME	6.52
<i>Visa</i>	V	5.67
<i>Alphabet</i>	GOOGL	5.28
<i>Adobe</i>	ADBE	4.89
<i>Microsoft</i>	MSFT	4.41
<i>Amazon</i>	AMZN	4.37
<i>Nike</i>	NKE	4.18
<i>Alibaba</i>	BABA	3.99

Economic data and events to watch

All eyes will be on the Federal Reserve during July, with increasingly dovish commentary suggesting a rate cut at the end of the month. Most analysts have priced in a cut and should we have another reading of weak inflation mid-month, as we expect, the move lower looks odds on. With the G20 summit seeing the US and China walk away friends once again, we're favouring the likelihood these may be the last stages of negotiations.

Data/Event	US Date
Manufacturing PMI	July 1
Balance of Trade	July 3
Non-manufacturing PMI	July 3
Nonfarm Payrolls	July 5
Federal Reserve June Minutes	July 10
Inflation Rate	July 11
Retail Sales	July 16
Consumer Sentiment	July 19
Durable Goods Orders	July 25
GDP Growth Rate	July 26
Personal Income and Spending	July 30
Federal Reserve Rate Decision	July 31

Upcoming earnings results

The following high profile companies are set to release their respective earnings results during July.

Company	Code	US Date	Company	Code	US Date
PepsiCo	PEP	July 9	Coca Cola Company	KO	July 23
Delta Air Lines	DAL	July 11	United Technologies	UTX	July 23
Infosys	INFY	July 12	Facebook	FB	July 24
Citigroup	C	July 15	Visa	V	July 24
Johnson & Johnson	JNJ	July 16	AT&T	T	July 24
JPMorgan Chase	JPM	July 16	Boeing	BA	July 24
Wells Fargo	WFC	July 16	PayPal	PYPL	July 24
Goldman Sachs	GS	July 16	GlaxoSmithKline	GSK	July 24
Bank of America	BAC	July 17	Caterpillar	CAT	July 24
Novartis	NVS	July 17	Amazon	AMZN	July 25
Netflix	NFLX	July 17	Alphabet	GOOGL	July 25
Abbot Laboratories	ABT	July 17	Intel	INTC	July 25
IBM	IBM	July 17	Comcast	CMCSA	July 25
Morgan Stanley	MS	July 17	3M Company	MMM	July 25
Microsoft	MSFT	July 18	Exxon Mobil	XOM	July 26
UnitedHealth Group	UNH	July 18	Chevron	CVX	July 26
SAP	SAP	July 18	McDonald's	MCD	July 26
Honeywell International	HON	July 18	Apple	APPL	July 30
Philip Morris International	PM	July 18	Procter & Gamble	PG	July 30
American Express	AXP	July 19	MasterCard	MA	July 30
General Electric	GE	July 19	Pfizer	PFE	July 30
Verizon Communications	VZ	July 23			

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